

## Message Text

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ACTION EB-08

INFO OCT-01 ARA-10 EUR-12 ISO-00 IO-13 AF-08 NEA-10 EA-09

SS-15 SP-02 L-03 H-02 NSC-05 AID-05 IGA-02 AGRE-00

CIAE-00 DODE-00 INR-07 NSAE-00 PA-02 USIA-15 PRS-01

COME-00 OMB-01 TRSE-00 ITC-01 /132 W

-----151855Z 043840 /41

P 151756Z MAR 77

FM AMEMBASSY LONDON

TO AMEMBASSY BRASILIA PRIORITY

INFO SECSTATE WASHDC PRIORITY 1575

AMEMBASSY BOGOTA PRIORITY

AMCONSUL RIO DE JANEIRO PRIORITY

AMCONSUL SAO PAULO PRIORITY

UNCLAS LONDON 04303

E.O. 11652: N/A

TAGS: EPAP

SUBJECT: COFFEE -- ICO PRESS RELEASE ON CURRENT SUPPLY/  
DEMAND SITUATION

REFERENCE: (A) BRASILIA 1998 (B) LONDON 4177

1. REGRET MISUNDERSTANDING IN REF (A) WHICH APPEARS TO DERIVE FROM ANALYTICAL FRAMEWORK USED BY INTERNATIONAL COFFEE ORGANIZATION RATHER THAN ANY FUNDAMENTAL DIFFERENCE ON DATA. PROBLEM DERIVES FROM ICO'S ATTEMPT TO REDUCE A COMPLEX ANALYSIS TO A BRIEF, SIMPLIFIED PRESS RELEASE. BACK-UP DOCUMENTS, WHICH WE ARE POUCHING, SHOULD ELIMINATE MISCONCEPTIONS.

2. BRASILIA'S DIFFICULTY APPEARS TO STEM FROM MISREADING OF TERM "OPENING STOCKS" IN CONJUNCTION WITH OCTOBER/SEPTEMBER COFFEE YEAR. OBVIOUSLY ANY ATTEMPT TO ADJUST OPENING STOCKS FOR ALL PRODUCERS, INCLUDING BRAZIL TO OCTOBER 1ST WOULD HAVE BEEN EXCEEDINGLY DIFFICULT IF UNCLASSIFIED

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NOT IMPOSSIBLE. WHAT WAS DONE, THEN, WAS TO AGGREGATE OPENING STOCKS BY GROUP OF COUNTRIES AS OF THAT GROUP'S VERIFICATION DATE. WHILE THE PRESS RELEASE DID NOT MAKE THIS EXPLICIT, THE PARAGRAPH BEGINNING "THE ORGANIZATION ESTIMATES THAT ....." (5TH PARA DOWN FROM BEGINNING) IMPLIES THIS WHEN IT NOTES THAT THE BRAZILIAN HARVEST BEGINS APRIL 1977.

3. FOR STOCK CALCULATION PURPOSES, THE AGGREGATE OF OPENING STOCKS IN EXPORTING COUNTRIES DURING THE OCTOBER 1976/SEPTEMBER 1977 COFFEE YEAR WOULD BE THOSE VERIFIED SEPTEMBER 30, 1976 AND ESTIMATED MARCH 31, 1977 AND JUNE 30, 1977. (IN FACT, THE JUNE CALCULATION IS NOT IMPORTANT SINCE THERE WERE ZERO NET OPENING STOCKS N 1975/76 AND NO LIKELIHOOD OF A BUILD-UP FOR 1976/77).

4. WITH ABOVE EXPLANATION, ICO CALCULATION LEADING TO 1976/77 OPENING STOCKS OF 8 MILLION BAGS IN BRAZIL (E.-&., THE CURRENT ESTIMATE OF WHAT THE SITUATION WILL BE ON APRIL 1, 1977) IS:

MILLION BAGS

GROSS OPENING STOCKS,

APRIL 1, 1976	29.9	
GROSS PRODUCTION (IBC)	6.0	
LESS CONSUMPTION	6.0	
EXPORTABLE PRODUCTION	0	0
LESS EXPORTS (APRIL 1976/ MARCH 1977)	17.2	
GROSS CLOSING STOCKS, MARCH 31, 1977	12.7	
LESS /WORKING STOCKS		5.0
NET OPENING STOCKS, APRIL 1, 1977	7.7	

5. OF COURSE, THE CALCULATION DIFFERS WITH REGARD TO UNCLASSIFIED

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WHETHER IBC OR USDA PRODUCTION DATA ARE USED. IF, AS SEEMS LIKELY, IBC HAS UNDERESTIMATED PRODUCTION AND USDA ESTIMATES ARE SUBSTITUTED, THEN THAT OPENING STOCK FIGURE WOULD BE INCREASED BY 2.5 MILLION BAGS TO 10.2 MILLION.

6. CONCEPT OF WORKING STOCKS IN PRACTICAL TERMS MEANS NEED FOR A RESERVE TO COVER FURTHER DRAWDOWN OF STOCKS FROM START OF HARVEST UNTIL BULK OF HARVEST COMES IN, SO ACTUAL LOW POINT IS IN JUNE, NOT APRIL. FIGURE HAS BEEN INCREASED TO 5 THOUSAND BAGS, THREE MONTHS EXPORT ESTIMATE PLUS TWO MONTHS' DOMESTIC CONSUMPTION. OF COURSE, WITH THE NEW VERIFICATION SCHEDULED TO BEGIN SHORTLY, THERE COULD BE SURPRISES FOR US ALL.

SPIERS

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## Message Attributes

**Automatic Decaptioning:** X  
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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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**Subject:** COFFEE -- ICO PRESS RELEASE ON CURRENT SUPPLY/ DEMAND SITUATION  
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**Type:** TE  
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**Review Markings:**  
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